Financial Security at Seven Age Milestones

by Sue Stevens, Editor of Morningstar Practical Finance

An inside peak into readers' concerns by age group.

Since I began writing for Morningstar, I've received thousands of E-mails and letters from a diverse group of readers. Morningstar subscribers hail from all parts of the world, including Asia, Europe, Africa, the Middle East, and the Pacific Rim, as well as North America. I hear from people engaged in any number of occupations, including pharmacists, doctors, nurses, military personnel, CPAs, FBI agents, teachers, restaurant workers, scientists, librarians, clergy, and artists.

Over the years, I've kept track of the types of questions I hear most often. One of the most interesting things I've learned is what's on your mind throughout the course of a lifetime. As you can imagine, a 20-year-old's financial concerns are usually quite different from a 60-year-old's.

Here's a glimpse into financial security issues at seven key age milestones.

20-Somethings

Even the most astute young people can use a little help getting their financial life off on a good foot. Their concerns are frequently:

- How to invest in a company retirement plan
- How to finance the purchase of an engagement ring
- How to finance the purchase of a first home
- How to start saving for a new baby's college funding
- Whether to pay off credit-card debt and/or student loans versus starting to invest
- What to do with a former company retirement plan when changing jobs

Of course, these concerns are coming from the portion of 20-somethings who are aware that they should be doing some planning. Frequently people in this age group are just struggling to make ends meet. It's not unusual to see them put off planning until a later time when they have more assets to manage.

30-Somethings

Now life starts to get a little more complicated. Typical for this age group is juggling multiple goals—college funding versus saving for retirement, paying off debt versus investing more, etc. Here are some of the most common financial concerns that appear in the 30s:

- Information overload on college funding vehicles: how to choose between 529 plans, Coverdell savings plans, UTMA/UGMA accounts or just keeping the money in the parents' name.
- Tax Awareness:
  - Deciding whether to hold stocks in a retirement plan or in a taxable account
  - Considering state and federal tax savings through 529 college savings plans or other types of plans
  - The power of compounding through a tax-deferred retirement plan
- Handling a divorce and becoming a single parent
- Investment Planning:
  - Not knowing how to get started investing
  - Recovering from a bad investment experience
  - Expanding the portfolio beyond just core choices
- First glimpse into caring for aging parents

40-Somethings

Sometimes panic sets in for people in their 40s. Retirement no longer seems that far away, and yet many people are behind in their retirement savings and must make up for lost time. Here are some of their concerns:

- Paying more attention to investment details like cost and diversification (especially with overconcentrated positions in company stock)
- Pruning and weeding out underperformers in the portfolio—with minimal tax consequences
- Running retirement projections
- Questioning current career paths
- Contemplating early retirement
- Wrestling with the decision to put a parent in a nursing home
- Deciding to sell a business
- Cashing in on stock options
- Finding a financial advisor that is trustworthy and competent
- Dealing with death—typically a parent or a spouse
- Launching and perhaps relaunching kids into adulthood
- Divorce and single-parent concerns

50-Somethings

Probably the most common question I hear from this group is "How soon is it realistic to leave my job?" Retirement is in sight for some. For others, there may be a realization that they may have to work longer than they had originally thought. Here are some typical 50-something issues:

- Transitions:
  - Weighing the trade-offs of a high-stress job with a lower-paying but more enjoyable job
  - Becoming a grandparent
  - Losing a job
  - Role reversal with parents
  - Phasing into retirement and re-thinking cash flows and taxes
  - Contemplating paying off the mortgage
- Investments:
  - Understanding the investment and tax implications of taking a lump sum from a retirement plan
  - Diversifying away from company stock, especially within five years of retirement
  - Shifting a portion of the portfolio to income-producing investments
  - Investing large sums of money from retirement lump sum rollover, inheritance or selling a business
  - Zeroing in on having enough money to last throughout retirement
- Health Care:
  - Insurance
  - Long-term care insurance
  - Managing a serious illness for self or loved one

60-Somethings

Medicare. Social Security. Time to slow down? Hardly. Most of the people I hear from in this age group are still quite active. They change the types of activities they participate in, but many say they are busier than ever. The number-one pleasure? Probably grandchildren. (Well, golf may be a close second.) Here are some of the things you tell me are on your minds:

- Deciding whether to roll over a lump sum from a retirement plan to an IRA instead of taking a monthly pension
- Weighing the pros and cons of annuities
- Coping with low interest rates
- Making sure the estate plan is in place
- Purchasing long-term care insurance
- Downsizing the home
- Worrying about running out of money too soon
- Minimizing taxes
- Gifting money to children and grandchildren

70-Somethings

Well-adjusted 70-somethings have come to terms with getting older. So what if you forget things now and then? It's not the end of the world. And even if your hands shake or you take so many pills that you have to get one of those days-of-the-week containers, you still make a difference in the lives of the people (and pets) that love you. Here's what's on your minds:

- Managing money *in* retirement
- Taking required minimum distributions from retirement plans
- Worrying about running out of money too soon
- Increasing costs for long-term care insurance premiums
- Worrying about loss of pension payments if company goes bankrupt

- Facing one's own mortality and preparing loved ones for that eventuality
- Medicare funding and coping with paperwork
- Generating enough income with low interest rates
- Spending principle as well as income
- Preservation of principle

80-Somethings and Beyond

Icons like Katherine Hepburn and Ronald Reagan died after living very full lives. People like that have an enormous impact on us all. They leave lasting legacies. And that's what many of you in your 80's are also concerned about—your legacy. You still worry about having enough money—no matter how much you have. Your financial concerns are still there, but many of you have developed a sense of humor about how you approach life. That's key for all of us.

The wisest of you have learned that you can't put a price on family and good friends. They are worth much more than any amount of money. I've seen people fully engaged in life in their 80s and beyond regardless of whether they have $100,000 or 1 million. Perhaps Ralph Waldo Emerson said it best: "To laugh often and much; to win the respect of intelligent people and the affection of children…to leave the world a better place…to know even one life has breathed easier because you have lived. This is to have succeeded." M